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Jay C. Keithley
Vice President
Law and External Affairs
United Telephone Companies

ORIGINAL
FILE

June 1, 1992

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JUN - 1 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

92-101

RE: In the Matter of Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other than Pensions"

Dear Ms. Searcy,

Attached are the original and five copies of the Direct Case of the United Telephone Companies in the proceeding referenced above.

Sincerely,

Jay C. Keithley

Jay C. Keithley
Vice President
Law and External Affairs

Attachments

JCK/mlm

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:	)	
	)	
Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other than Pensions"	)	CC Docket No. 92-101

DIRECT CASE OF THE
UNITED TELEPHONE COMPANIES

UNITED TELEPHONE COMPANIES

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June 1, 1992

SUMMARY

This Direct Case of the United Telephone companies ("United") proves that the incremental costs of implementing Statement of Financial Accounting Standards No. 106 (SFAS-106) -- "Employers Accounting for Postretirement Benefits Other Than Pensions" should be exogenous costs. SFAS-106 requires employers to accrue a liability related to the Other Postretirement Employee Benefits ("OPEBs") the employer will provide for employees' current services rather than accounting for OPEBs liability on a pay-as-you-go basis.

First, SFAS-106 is an administrative change that is beyond United's control. The Financial Accounting Standards Board ("FASB") requires companies like United to adopt SFAS-106 for fiscal years beginning after December 16, 1992. Further, the FCC has authorized carriers to adopt SFAS-106, stating that SFAS-106 is not in conflict with its regulatory accounting needs.

Additionally, United has demonstrated that 84.8% of its incremental costs due to implementation of SFAS-106 will not be reflected in the inflation variable of the PCI, thus eliminating the potential for double counting those costs.

Finally, if United, which to date has only recognized pay-as-you-go amounts in rate development, is not granted exogenous cost treatment it will be foreclosed from recovering those incremental costs. Thus United would be significantly disadvantaged as compared to carriers which have previously been allowed to utilize accrued OPEBs expenses in rate development.

TABLE OF CONTENTS

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DIRECT CASE OF THE UNITED TELEPHONE COMPANIES

The United Telephone companies ("United")[1] hereby file their Direct Case in response to the Commission's April 30, 1992 Order of Investigation and Suspension ("OIS") in the above referenced docket. As set out more specifically below, United requests the Commission to grant an exogenous change to price cap index ("PCI") levels to recover the incremental costs arising from implementation of SFAS-106.

1. Carolina Telephone and Telegraph Company; United Telephone Company of Southcentral Kansas; United Telephone Company of the Carolinas; United Telephone Company of Florida; United Telephone Company of Indiana, Inc.; United Telephone Company of Eastern Kansas; United Telephone Company of Kansas; United Telephone Company of Minnesota; United Telephone Company of Missouri; United Telephone Company of New Jersey, Inc.; United Telephone Company of the Northwest; United Telephone Company of Ohio; United Telephone Company of Pennsylvania; United Telephone - Southeast, Inc.; United Telephone Company of Texas, Inc.; and United Telephone Company of the West.

BACKGROUND

The Financial Accounting Standards Board (FASB) prescribed that SFAS-106 be effective for fiscal years beginning after December 15, 1992, with earlier adoption encouraged.[2] Rather than accounting for Other Post Retirement Employee Benefits (OPEBs) under the current "pay as you go" basis, (as currently used by United), SFAS-106 requires companies to recognize OPEBs as deferred compensation, earned by employees as they provide service to the employer.[3] Employers must accrue a liability related to the OPEBs an employer will provide for employees' current services.

For all employers, SFAS-106 provides that the costs associated with OPEBs will be recognized as the employees render the services necessary to earn the benefits. For price cap carriers, provided exogenous treatment is ordered, SFAS-106 ensures that these current costs shall be recovered from the customers who benefit from the services which give rise to the costs.

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2. Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 106 (SFAS-106) -- "Employers Accounting for Postretirement Benefits Other Than Pensions," Financial Accounting Series, No. 098-D, December 1990.

3. OPEBs may include both health care and life insurance;, however United's OPEBs costs include only the cost of providing postretirement health care.

On December 26, 1991, the Common Carrier Bureau ("Bureau") authorized all carriers to adopt SFAS-106 on or before January 1, 1993 and ordered the deferral and amortization of the embedded liability.[4] Subsequently, Bell Atlantic, US West, and Pacific Bell filed tariffs to increase their price cap index levels as a result of their implementation of SFAS-106.[5] The Bureau suspended Bell Atlantic's and US West's tariffs and stated: "...the issue of the exogenous treatment of the costs associated with implementing SFAS 106 appears to be similar for all LECs subject to price caps."[6] Accordingly, the Bureau established the current proceeding to resolve the issue for all price cap LECs, including those like United that had not yet filed for exogenous treatment.[7]

In response to the OIS, United files its Direct Case seeking exogenous treatment of the costs associated with implementing SFAS-106 and responding to the issues designated. The paragraph numbers reference the OIS paragraphs.

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4. Southwestern Bell, GTE Corporation, Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions, AAD 91-80, 6 FCC Rcd. 7560 Order, Common Carrier Bureau (1991). ("SFAS-106 Order")

5. See, OIS at para. 1.

6. Id., at para. 9.

7. Id.

ISSUES

10.I. Have the LECs borne their burden of demonstrating that implementing SFAS-106 results in an exogenous cost change under the Commission's price cap rules?

Response. United requests exogenous treatment of the incremental OPEBs costs. Incremental OPEBs costs are defined as those costs accrued under SFAS 106 which exceed traditional pay-as-you-go amounts. United has not previously included these costs in its rate of return monitoring plans nor under its current Price Cap tariff filings.

The Commission's Price Cap rules indicate that cost changes triggered by administrative, legislative, or judicial action, beyond the control of the carrier, are to be considered exogenous costs which should result in an adjustment to the cap to prevent the price cap formula from leading to unreasonably high or low rates.[8] However, the Commission has stated that changes in Generally Accepted Accounting Principles (GAAP), such as SFAS-106, will not routinely be accorded exogenous treatment, even though beyond the control of the carrier, but will be re-

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8. Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786, 6807 (1990), (LEC Price Cap Order); See, OIS, para. 5.

viewed on a case by case basis.[9] First, no carrier may treat a GAAP change as exogenous until FASB has approved the change and the FCC has determined that the change is compatible with its regulatory accounting needs.[10] Additionally, the burden is on the carrier to demonstrate that no double-counting will result in the inflation variable of the PCI.[11]

That burden, in the instant case, is met. The FASB issued SFAS-106 in December 1990 requiring employers to account for OPEBs using a defined accrual method for fiscal years beginning after December 15, 1992. The FCC then authorized that price cap carriers adopt SFAS-106 on or before January 1, 1993. Since United has not previously used the accrual method for OPEBs accounting and has only recognized pay-as-you-go amounts, SFAS-106 represents a significant accounting change, approved and adopted by the FCC, which United must implement. Clearly, SFAS-106 is an administrative change which is beyond the control of United.

Further, the effects of implementation of SFAS-106 will not be reflected in the inflation variable of the PCI. To determine the amounts which will not be recovered through the GNP-

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9. Policy and Rules Concerning Rates for Dominant Carriers, CC Docket 87-313, Memorandum Opinion and Order on Reconsideration, 6 FCC Rcd 665, 674 (1991) (AT&T Price Cap Reconsideration Order.

10. LEC Price Cap Order at 6807.

11. AT&T Price Cap Reconsideration Order, at 674; Policy and Rules Concerning Rates for Dominant Carriers, CC Docket 87-313, Order on Reconsideration, 6 FCC Rcd 2662 at para. 63 (1991) ("LEC Price Cap Reconsideration Order"); OIS at para. 6.

PI, United relies on the Godwins Study commissioned by the United States Telephone Association and supported by United.[12]

The Godwins Study consisted of an Actuarial Analysis and Macroeconomic Analysis. The Actuarial Analysis used demographic, economic and benefit program data from each Price Cap LEC to create a composite LEC (referred to as "TELCO" in the study). The Macroeconomic Analysis analyzed the impact of SFAS-106 on the economy as a whole.

The Actuarial Analysis determined that the average costs of the average company in the economy increases by only 28.3% as much as the composite price cap LEC's costs due to SFAS-106. Further, the Macroeconomic Analysis determined that only 2.3% of this average increase in costs for the average company in the economy would be passed through to GNP-PI. Thus, only 0.7% (28.3% x 2.3%) of the composite price cap LEC's increased costs would be reflected in GNP-PI. Therefore a price cap LEC would not receive any recovery for 99.3% of the costs associated with SFAS-106.

However, the Macroeconomic Analysis further determined that the national wage rate would eventually be 0.93% lower than it would have been absent SFAS-106. Assuming the composite price cap LEC could similarly reduce its wage rate, the Godwins Study

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12. United States Telephone Association "Analysis of Impact of SFAS No. 106 Cost on GNP-PE", (Godwins Study) February 1992. The Godwins Study was submitted in the Bell Atlantic Transmittal No. 497 and US West Transmittal No. 246. See, OIS fn. 5.

concludes that this reduction would recover an additional 14.5% of SFAS-106 costs, leaving a best case of 84.8% (99.3% - 14.5%) of the SFAS-106 costs unrecovered by the composite LEC.

Further, United will be disproportionately disadvantaged, in comparison to many other price cap carriers, unless exogenous treatment is granted for the incremental costs of SFAS-106. Other carriers were permitted by the Commission to accrue and include OPEB expenses in rate development prior to the issuance of SFAS-106 and the Commission indicated that the previously accrued OPEBs costs would be used in the ratemaking process to justify rates.[13] Further, the Commission went on to state that: ". . . carriers that elected to wait until the GAAP change becomes effective before expending funds for OPEBs are not necessarily foreclosed from recovering these costs."[14]

United is one of those companies which elected to wait for the GAAP change to become effective and to date has only recognized pay-as-you-go amounts in rate development. If United, as the Godwins Study amply demonstrates, does not receive exogenous treatment of the SFAS-106 incremental costs, it will be foreclosed from recovering the vast majority of the SFAS-106 incremental costs to its distinct disadvantage as compared to other price cap carriers that have already recovered some of their

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13. LEC Price Cap Reconsideration Order, at paras. 59-63.

14. Id. at para. 62.

SFAS-106 incremental costs. Indeed, as shown on Attachment A, recovery of pay-as-you-go amounts by United was only 20% of those costs.

11(1) The date the LEC has implemented or intends to implement SFAS-106.

Response. United intends to implement SFAS-106 on or before January 1, 1993 and will notify the FCC of adoption in accordance with RAO Letter 20.[15]

(s3B11(2) The costs by year.

Response. The 1993 total SFAS-106 costs, pay-as-you-go costs, and incremental costs are reflected on Attachment A which is attached hereto and incorporated herein.

11(3) The allocation of costs to baskets by year.

Response. The allocation to baskets is reflected on Attachment B which is attached hereto and incorporated herein.

11(4) The treatment of these costs in reports to the Securities and Exchange Commission (SEC) and to shareholders, including specific citations to, or excerpted materials from, such reports.

Response. The implications of SFAS-106 have been presented to shareholders through the 1990 and 1991 annual reports, which were part of the 10K filed with the SEC. Excerpts from the annual reports discussing SFAS-106 are attached hereto as Attachment C and incorporated herein.

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15. RAO Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, DA 92-520, Released May 4, 1992.

11(5) All studies on which the LEC seeks to rely in its demonstration that these accounting changes should be considered exogenous cost changes, including all studies demonstrating that the change is not reflected in the current price cap formulas, factors for inflation, productivity, allowed exogenous changes, initial price cap rates, and the sharing and low-end formula adjustment mechanisms.

Response. United utilized the Godwins Study in determining the impact of OPEBs on GNP-PI. The findings of the Godwins Study indicate that .7% of the additional costs incurred by price cap LECs will be recovered through the GNP-PI. Also, the study found that an additional 14.5% of the OPEBs costs would be recovered over time from an adjustment in the national wage rate.

13(1) Describe each of the type of benefits being provided that is covered by the SFAS-106 accounting rules.

Response. United offers retirees medical coverage under a flexible benefit indemnity program. Coverage is extended to the retiree's spouse and dependent children. The program involves premium sharing, deductibles, co-payments, out-of-pocket maximums, lifetime maximums and cost containment features.

Employees who retired on or before December 31, 1990 became eligible for these benefits at no cost or reduced cost to the retirees. Employees retiring after December 31, 1990 who meet specified age and years of service requirements are eligible for these benefits on a shared cost basis, with United's portion of the cost determined by the retiree's years of credited service at retirement.

Retirees may select from among three annual deductible options: low, medium and high which also have corresponding out-of-pocket maximums. After the deductibles are met, the plan will pay for 80% of the medically necessary, reasonable and customary, covered expenses. If the participant should reach the out-of-pocket maximum in a calendar year, the plan will pay 100% of the medically necessary, reasonable and customary, covered expenses. Covered expenses comprise but are not limited to office visits, hospitalizations, outpatient and inpatient surgery, lab and x-ray, prescription drugs, mental health and substance abuse counseling.

The plan coordinates benefits with Medicare upon the retiree's attaining age 65. Between both Medicare (which is primary) and the plan, the retiree will receive a benefit which in total will not exceed what the plan would have paid alone.

The plan includes cost containment provisions such as pre-admission review, concurrent review, discharge planning, medical case management and a hospital audit program. United's plan is self-insured and uses a third party administrator for claims payment.

13(2) Describe for 1991 and 1992, the pay-as-you-go level of expense associated with these benefits.

Response. Attachment D provides the actual pay-as-you-go amounts for calendar year 1991, plus the estimated pay-as-you-go amounts for calendar year 1992 as estimated from the September 1991 actuarial study performed by the Wyatt Company.

13(3) Describe any Voluntary Employee Benefit Association (VEBA) trusts or other funding mechanism for these expenses which were established prior to the adoption of SFAS-106.

Response. United does not maintain any VEBAs.

13(4) Describe the forms of postretirement benefit accrual accounting, if any, that were adopted within the regulated financial reporting before the adoption of price cap regulation.

Response. Prior to price caps United only recognized pay-as-you-go amounts. No accrual accounting was used for OPEBs.

13(5) Describe what type and level of SFAS-106 type expense is reflected in current rates.

Response. United reflected only pay-as-you-go amounts in current rates as shown on Attachment E.

13(6) Describe what type and level of SFAS-106 type expense was reflected in the starting rates for price caps.

Response. United reflected only pay-as-you-go amounts in the starting rates for price caps. Those amounts are substantially the same as shown on Attachment E.

14 Provide descriptions and justifications of the actuarial assumptions, and the assumptions unique to postretirement health care benefits, made in computing the SFAS-106 expenses.

Response. SFAS-106 requires that OPEBs be recognized as deferred compensation. The determination of these costs is accomplished using the same theoretical approach as pension accounting under SFAS 87, "Employers' Accounting for Pension." The amount United will accrue as the cost of SFAS-106 is determined by considering the following components:

(1) Service Cost which represents the portion of the OPEB Expected Postretirement Benefit Obligation (EPBO) earned by employees during the current accounting period. The EPBO is the actuarially determined present value measured at a particular date of the OPEB expected to be paid by United on behalf of its employees;

(2) Interest Cost which is the product of the assumed discount rate times the beginning of the year Accumulated Postretirement Benefit Obligation (APBO). The APBO represents the portion of the EPBO earned to date as a result of past employee service. Interest cost represents the increase in discounted plan liabilities that occur as a result of the passage of time;

(3) Actual Return on Plan Assets which is a reduction to net periodic cost and recognizes the return on plan assets permanently set aside to satisfy future plan obligations;

(4) Amortization of Unrecognized Prior Service Costs which represents the ratable recognition of the cost of plan amendments that increase or decrease benefits attributable to prior periods;

(5) Amortization of Gain or Loss Deferred which represents the ratable recognition of the net effects of prior years' unrecognized gains and losses. Gains and losses may be either changes in the amounts of the APBO or the plan assets that have resulted from experience different than that assumed or from changes in assumptions;

(6) Amortization of the Transition Obligation which represents the ratable amortization of the unrecognized net OPEB obligation (i.e., the extent to which the APBO exceeds the Plan assets) existing at the initial application date of the final Standard.

The following information and the data on Attachment F, pages 1 through 5, provide the actuarial assumptions utilized.

The interest discount rate used to determine the time value of money is 8.0%. The actuarial participation assumption is that all retirees which receive pension benefits also receive medical benefits. The study assumes an "average" retirement age of 62; though retirement assumptions apply to each age group eligible for retirement.

Claims cost assumptions are shown on Attachment F, pages 1, 2 and 3. Health care cost trend rate assumptions are provided on Attachment F, page 4. Actuarial assumptions for employment turnover, mortality, and disability are shown on Attachment F, page 5. No assumptions are made regarding the advent of national health insurance.

15 Describe what adjustment, if any, should be made in the exogenous adjustment to avoid any double counting.

Response. The Godwins Study established the percentage that an average price cap LEC's SFAS-106 cost will be reflected in the GNP-PI. According to this study, the GNP-PI will provide for recovery of 0.7% of the additional cost incurred by LECs because of SFAS-106. Additionally, the study provides that other macroeconomic factors, principally an eventual adjustment of the national wage rate, will account for an additional 14.5% of the additional postretirement costs. This leaves 84.8% of the post-retirement cost for United unrecovered. The quantification of these recoveries are set forth on Attachment B.

Additionally, United utilized Part 36 rules to separate OPEB costs between state and interstate jurisdictions. Once the OPEB expense and capital changes are separated between state and interstate, the interstate portion is allocated between the interstate price cap baskets based on Part 69 rules. Attachment B demonstrates this allocation.

16 Describe and document the USTA study [Godwins Study], including the method of estimation, parameter estimates, and summary statistics.

Response. As previously noted, United relied upon the Godwins Study which was commissioned by USTA and supported by United. On June 1, 1992 USTA is filing its Direct Case in the instant proceeding which responds to this issue, describing in full the Godwins Study. United adopts USTA's Direct Case as its response to this issue.

CONCLUSION

Having met its burden of demonstrating that the incremental costs of SFAS-106 should be accorded exogenous cost treatment, United requests the Commission to order an exogenous change to PCI levels to recover the incremental costs arising from implementation of SFAS-106.

Respectfully submitted,

UNITED TELEPHONE COMPANIES

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June 1, 1992

ATTACHMENT A
UNITED TELEPHONE COMPANIES

The following provides the SFAS-106 costs for 1993.

	1993 Total SFAS-106 COSTS	1993 Pay-As-You-Go Amounts	1993 INCREMENTAL COSTS
Florida	$17,103	$ 3,090	$14,013
Carolina	18,090	3,054	15,036
Ohio	9,917	1,831	8,086
Midwest	11,889	3,307	8,582
Eastern	7,398	1,382	6,016
Southeast	7,555	1,801	5,754
Indiana	4,266	885	3,381
Northwest	2,143	259	1,884
TOTAL	$78,361	$15,609	$62,752

ATTACHMENT B
UNITED TELEPHONE COMPANIES

		Revenue Requirement Calculation				
		Florida	Carolina	Ohio	Midwest	Eastern
1.	1993 Incremental OPEB Costs	$14,013,000	$15,036,000	$8,086,000	$8,582,000	$6,016,000
2.	Incremental OPEB Costs Capitalized	$ 1,355,217	$ 1,834,083	$ 616,031	$ 459,914	$ 198,936
3.	Incremental OPEB Costs Allocated to Non-Regulated	$ 1,040,748	$ 1,745,099	$ 757,899	$ 357,258	$ 356,393
4.	1993 Incremental OPEB Costs Subject to Separations (Ln 1 - Ln 2 - Ln 3)	$11,617,035	$11,456,818	$6,712,070	$7,764,828	$5,460,671
5.	OPEB - Interstate (Sub. to Price Cap)	$ 2,817,901	$ 1,900,076	$1,358,456	$1,697,585	$1,057,508
	Big 3 Expenses Allocation Factor (Part 36)	24.26%	16.58%	20.24%	21.86%	19.37%
6.	Allowable OPEB Amount (Ln 5 * 84.8%)	$ 2,389,580	$1,611,264	$1,151,971	$1,439,552	$ 896,767
7.	Jan-Jun 1993 Impact (Ln 6 * 50%)	$ 1,194,790	$ 805,632	$ 575,985	$ 719,776	$ 448,383
8.	Depreciation Rate	$ 6.90%	6.90%	7.90%	6.20%	7.00%
9.	Depreciation Expense (Ln 2 * Ln 8 * 50%)	$ 46,755	$ 63,276	$ 24,333	$ 14,257	$ 6,963
10.	Depreciation Exp. - Interstate (TPIS)	$ 14,138	$ 15,625	$ 5,824	$ 3,656	$ 1,655
	TPIS Allocation Factor	30.24%	24.69%	23.93%	25.64%	23.77%
11.	Rate Base Impact ((Ln 7 + Ln 10) * 11.25% x 1.5151515))	$ 206,067	$ 139,987	$ 99,172	$ 123,312	$ 76,711
12.	Revenue Req. Impact (Ln 7 + Ln 10 - Ln 11)	$ 1,002,861	$ 681,270	$ 482,637	$ 600,120	$ 373,327

ATTACHMENT B
UNITED TELEPHONE COMPANIES

Revenue Requirement Calculation

	Florida	Carolina	Ohio	Midwest	Eastern
COMMON LINE					
Revenue (R)	$91,368,214	$55,881,259	$32,769,092	$43,329,887	$29,182,078
Exogenous Change (Z)	$ 554,349	$ 367,706	$ 227,883	$ 339,751	$ 204,211
W = ((R + Z) / R)	1.006067	1.006580	1.006954	1.007841	1.006998
7/1/92 Filed PCI	88.4019	96.6555	96.5471	93.7967	92.2264
New Filed PCI	88.9382	97.2915	97.2185	94.5321	92.8718
7/1/92 Filing					
Terminating CCL Prem	.017783	.012073	.017484	.024702	.009548
Originating CCL Prem	.010000	.010000	.010000	.010000	.009548
New Filing					
Terminating CCL Prem	.018139	.012428	.017937	.025347	.009573
Originating CCL Prem	.010000	.010000	.010000	.010000	.010000
TOTAL SWITCHED					
Revenue (R)	$65,150,533	$39,214,015	$25,903,055	$38,465,310	$20,888,180
Exogenous Change (Z)	$ 383,855	$ 254,607	$ 190,046	$ 232,979	$ 143,829
W = ((R + Z) / R)	1.005892	1.006493	1.007337	1.006057	1.006886
7/1/92 Filed PCI	84.4912	95.2546	96.0465	94.7104	93.8073
New Filed PCI	84.9890	95.8731	96.7512	95.2840	94.4532
SPECIAL ACCESS					
Revenue (R)	$13,184,620	$ 8,833,172	$ 9,346,150	$ 4,770,621	$ 4,418,326
Exogenous Change (Z)	$ 64,657	$ 58,958	$ 64,708	$ 27,389	$ 25,287
W = ((R + Z) / R)	1.004904	1.006675	1.006923	1.005741	1.005723
7/1/92 Filed PCI	97.2298	101.3233	101.1592	99.2696	103.1728
New Filed PCI	97.7066	102.9996	101.8595	99.8396	103.7633

ATTACHMENT B
UNITED TELEPHONE COMPANIES

	Revenue Requirement Calculation			
	Southeast	Indiana	Northwest	System
1. 1993 Incremental OPEB Costs	$5,754,000	$3,381,000	$1,884,000	$62,752,000
2. Incremental OPEB Costs Capitalized	$ 388,320	$ 230,770	$ 133,035	$ 5,216,305
3. Incremental OPEB Costs Allocated to Non-Regulated	$ 543,823	$ 359,523	$ 124,348	$ 5,285,092
4. 1993 Incremental OPEB Costs Subject to Separations (Ln 1 - Ln 2 - Ln 3)	$ 4,821,857	$2,790,707	$1,626,617	$52,250,603
5. OPEB - Interstate (Sub. to Price Cap)	$ 1,032,745	$ 654,090	$ 420,642	$10,939,003
Big 3 Expense Allocation Factor (Part 36)	21.42%	23.44%	25.86%	20.94%
6. Allowable OPEB Amount (Ln 5 * 84.8%)	$ 857,768	$ 554,668	$ 356,705	$ 9,276,274
7. Jan-Jun 1993 Impact (Ln 6 * 50%)	$ 437,884	$ 277,334	$ 178,352	$ 4,638,137
8. Depreciation Rate	6.00%	8.00%	6.70%	6.94%
9. Depreciation Expense (Ln 2 * Ln 8 * 50%)	$ 11,650	$ 9,231	$ 4,457	$ 180,921
10. Depreciation Exp. - Interstate (TPIS)	$ 2,872	$ 2,302	$ 1,217	$ 47,289
TPIS Allocation Factor	24.65%	24.94%	27.30%	26.14%
11. Rate Base Impact ((Ln 7 + Ln 10) * 11.25% x 1.5151515))	$ 75,129	$ 47,665	$ 30,608	$ 798,652
12. Revenue Req. Impact (Ln 7 + Ln 10 - Ln 11)	$ 365,627	$ 231,971	$ 148,961	$ 3,886,774

ATTACHMENT B
UNITED TELEPHONE COMPANIES

	Revenue Requirement Calculation			
	Southeast	Indiana	Northwest	System
COMMON LINE				
Revenue (R)	$23,314,746	$13,239,469	$8,547,650	$297,632,395
Exogenous Change (Z)	$ 192,843	$ 126,157	$ 67,950	$ 2,080,850
W = ((R + Z) / R)	1.008271	1.009529	1.007950	1.006991
7/1/92 Filed PCI	98.5104	85.7468	88.0068	N/A
New Filed PCI	99.3252	86.5639	88.7065	N/A
7/1/92 Filing				
Terminating CCL Prem	.011819	.017057	.019354	N/A
Originating CCL Prem	.010000	.010000	.010000	N/A
New Filing				
Terminating CCL Prem	.012249	.017680	.019914	N/A
Originating CCL Prem	.010000	.010000	.010000	.010000
TOTAL SWITCHED				
Revenue (R)	$12,436,953	$10,567,596	$10,069,378	$222,695,019
Exogenous Change (Z)	$ 132,551	$ 87,799	$ 72,308	$ 1,497,973
W = ((R + Z) / R)	1.010658	1.008308	1.007181	1.006727
7/1/92 Filed PCI	96.7832	92.2413	81.2393	N/A
New Filed PCI	97.8147	93.0077	81.8227	N/A
SPECIAL ACCESS				
Revenue (R)	$ 5,566,811	$ 3,548,856	$ 1,775,998	$ 51,444,554
Exogenous Change (Z)	$ 40,233	$ 18,015	$ 8,703	$ 307,991
W = ((R + Z) / R)	1.007227	1.005076	1.004900	1.005986
7/1/92 Filed PCI	102.2046	101.0400	92.3284	N/A
New Filed PCI	102.9432	101.5529	92.7809	N/A

Sprint's income between those periods.

The effects of inflation on the Company's operations were not significant during 1991, 1990 or 1989.

RECENT ACCOUNTING DEVELOPMENTS

ACCOUNTING FOR INCOME TAXES

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which superseded Accounting Principles Board Opinion No. 11 (the standard currently followed by the Company) and SFAS 96. The new standard requires an asset and liability approach to accounting for income taxes. Under this approach, existing deferred taxes are adjusted currently to reflect the statutory tax rates under enacted tax laws. Additionally, SFAS 109 establishes less restrictive criteria for recognizing deferred tax assets. The Company may elect to recognize the effects of adopting SFAS 109 by recording a cumulative adjustment in the consolidated statement of income or by restating prior years' financial statements.

A significant portion of the Company's deferred taxes relates to depreciation of property of its rate-regulated local communications services subsidiaries. Pursuant to current federal tax law, state regulatory commissions orders and SFAS 109, these deferred taxes will be adjusted over the life of the related property rather than in the year of adoption of SFAS 109. Further, it is anticipated that reductions of regulated deferred taxes will accrue to the benefit of the local telephone companies' customers. Accordingly, the effect on the Company's local communications services subsidiaries of adopting SFAS 109 is not expected to be significant. Application of SFAS 109 to the Company's other business units is not expected to have a material effect on the Company's consolidated financial position.

The provisions of SFAS 109 require the Company to adopt the new standard on or before January 1, 1993. The Company is continuing to evaluate the provisions of SFAS 109 and has not determined when, or by which method, it will adopt the new standard.

ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This new standard will result in a change from the Company's current practice of expensing postretirement benefits (principally health care benefits) as incurred to one requiring accrual, during the years employees earn the benefits, of the expected future costs of providing such benefits to employees and their beneficiaries.

Upon adoption of SFAS 106, the Company may elect to recognize its obligation for postretirement benefits already earned by the Company's current retirees and active workforce as of the date of adoption (the transitional obligation) using one of two methods: immediately, as a cumulative adjustment in the consolidated statement of income or, on a delayed basis, by amortizing the transitional obligation on a straight line basis over a period of twenty years or the average remaining service period of its current workforce, which the Company currently estimates to be fifteen years. Should the Company elect to recognize the full transitional obligation immediately upon adoption, the Company expects the resulting charge would reduce net income in the year of adoption by